

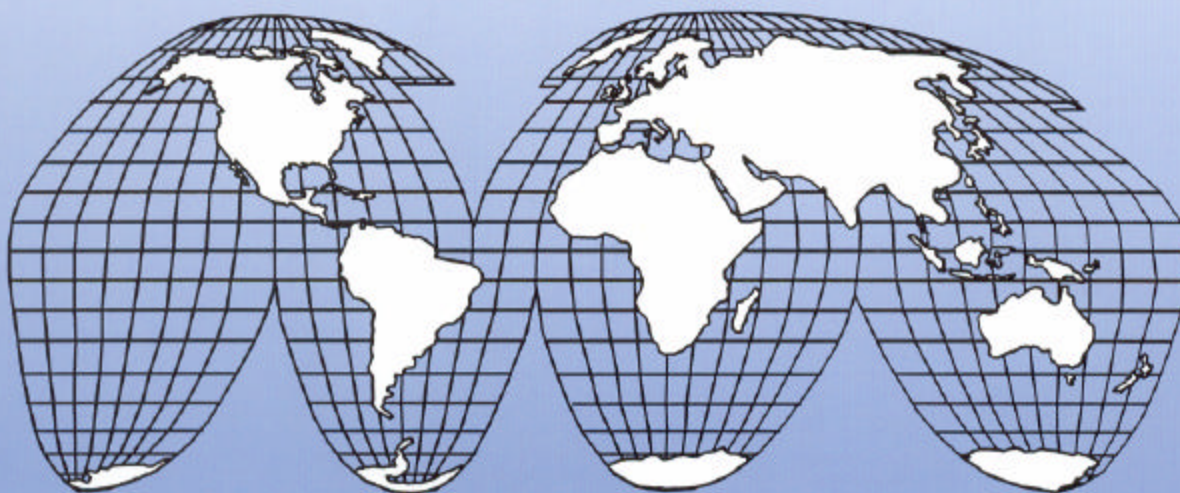
USAID

OFFICE OF INSPECTOR GENERAL

**Report on Audit of the African Development Foundation's
Financial Statements for Fiscal Years
2004 and 2003.**

Audit Report No. 0-ADF-05-003-C

November 15, 2004




Washington, D.C.



November 15, 2004

MEMORANDUM

FOR: African Development Foundation President, Nathaniel Fields

FROM: AIG/A, Bruce N. Crandlemire 

SUBJECT: Audit of the African Development Foundation's Financial Statements for Fiscal Years 2004 and 2003 (Report No. 0-ADF-05-003-C)

Enclosed is the final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Leonard G. Birnbaum and Company, LLP (LGB) to audit the financial statements of the African Development Foundation as of September 30, 2004 and 2003 and for the years then ended. The contract required that the audits be performed in accordance with generally accepted auditing standards; generally accepted government auditing standards; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

In its audits of the African Development Foundation's (ADF) Fiscal Year 2004 Financial Statements, the LGB auditors found;

- that the financial statements were fairly presented in conformity with U.S. generally accepted accounting principles
- a material weakness in ADF's internal controls, and
- four instances of noncompliance related to the inadequacy of its financial and accounting system.

The material weakness in internal controls relates to an inadequacy in the system used by the Department of Interior, National Business Center, to process ADF's transactions. Because of this weakness, significant financial statement elements were developed from sources other than the general ledger.

The auditors also noted instances of noncompliance with the Budget and Accounting Procedures Act of 1950; OMB Circular A-127; *Federal Financial Management System Requirements* issued by the Joint Financial Management Improvement Program; and the Federal Financial Management Improvement Act.

In carrying out its oversight responsibilities, the OIG reviewed LGB's report and related audit documentation. This review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable the OIG to express, and we do not express, opinions on ADF's financial statements or internal control; on whether ADF's financial management systems substantially complied with FFMIA; or on ADF's compliance with laws and regulations. LGB is responsible for the attached auditor's report, dated November 12, 2004, and the conclusions expressed in the report. However, our review disclosed no instances where LGB did not comply, in all material respects, with applicable standards.

Because of the reported material weakness and compliance findings, we are making the following recommendations to ADF management:

Recommendation No. 1: We recommend that the African Development Foundation implement the U.S. Standard General Ledger at the transaction level.

Recommendation No. 2: We recommend that the African Development Foundation implement an accounting system capable of providing full disclosure of its results of financial operations and adequate financial information needed in the management of its budget and operations, and of providing effective control over its revenues, expenditures, funds, property, and other assets in accordance with the Budget and Accounting Procedures Act of 1950, OMB Circular A-127, and the Joint Financial Management Improvement Program's *Federal Financial Management System Requirements*.

We have incorporated your comments in our report in Appendix I of this report.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of LGB during the audit. If you have questions concerning this report, please contact Andrew Katsaros at (202) 712-4902.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The African Development Foundation's (ADF) mission is to support community-led, demand-driven development in Africa and generate best practices for grassroots African development that are sustainable and replicable. ADF accomplishes this mission by providing funding to nongovernmental organizations (NGOs) and small enterprises that help these local entities invest in their communities and become self-sustaining.

ADF is a unique organization that supports projects of \$250,000 or less. These projects are conceived, designed, implemented and managed by local NGOs and small businesses in 15 sub-Saharan African countries. The Foundation was established as a federal agency and public corporation by the African Development Foundation Act of 1980, and it began active program operations in 1984. Since that time ADF has funded more than 1600 projects across Africa.

Foundation grants help African NGOs and small businesses:

- Develop viable micro enterprises and small enterprises that generate higher incomes, new jobs, and higher rates of self-employment in some of Africa's poorest communities;
- Achieve the capacity to tap regional and international market opportunities;
- Build self-supporting, sustainable, local community development agencies;
- Promote community based interventions that mitigate the social and economic impact of HIV/AIDS; and
- Strengthen democratic values and institutions at the local level.

ADF practices a thorough, three-stage grant review process that includes detailed reviews of:

1. initial applications and applicant project sites,
2. project concept papers, and
3. final project papers that include clearly structured implementation plans and full budgetary and financial analyses.

Most of ADF's grants are greater than \$50,000, and the maximum grant value is normally \$250,000. Grants larger than \$250,000 require special approval from ADF's Board of Directors. To help enhance the impact of its funding, ADF often assists its beneficiaries in leveraging grants, loans, and loan guarantees from other sources. This enhancement is accomplished through strategic partnerships with national and regional governments in Africa, national and regional development banks, other international development assistance agencies, and private sector entities.

Unlike most development agencies, ADF works directly with African producer groups and nongovernmental organizations. The Foundation does not channel any of its resources through governments. All ADF-funded projects are initiated by the enterprise or community groups. Rather than designing projects on behalf of its grantees, ADF works with the local partner nongovernment organizations (NGOs) to help applicants define and acquire the assistance they need to achieve project goals. The Foundation's participatory approach to

development ensures local ownership and strong local participation. This approach has been shown to enhance the impact and sustainability of ADF's investments.

ADF is currently administering more than 220 projects in fifteen countries:

Benin	Namibia	Uganda
Botswana	Niger	Zambia
Cape Verde	Nigeria	Zimbabwe
Ghana	Senegal	
Guinea	Swaziland	
Mali	Tanzania	

ADF's Strategic Goals and Objectives for FY 2004

During FY's 2002 and 2003, ADF implemented an innovative business model to decentralize its headquarters and field operations and provide in-country resources to support grantees. African professionals now serve as the Country Representatives and staff the local Partner Organizations. During FY 2003, ADF also established an additional six new strategic program alliances with African Governments, and recognized \$1.3 million in leveraged contributions from existing strategic alliances. In addition, during the last quarter of FY 2003, ADF negotiated and interagency agreement that will provide the Foundation with a federalized Financial Management System to assist ADF in making timely financial decisions. Taking into consideration all these challenges, the Foundation made remarkable progress toward achieving its Strategic Goals and Objectives for FY 2004 (Table 1).

Promoting Innovative Trade and Investment

For the past several years, the African Development Foundation has been piloting exciting investments that promote new export trade and investment (T&I) opportunities for small-scale African businesses and agricultural cooperatives. The focus of these efforts is to identify and promote nontraditional export crops and existing small-scale manufacturers or processors and to help these enterprises improve production and productivity and successfully move their products into regional and international markets. The African Growth and Opportunity Act of 2000 (AGOA) specifically recognized the important role of ADF in helping to integrate small-scale producers at the grassroots level into the global economy.

ADF has ongoing T&I programs in Uganda, Tanzania, Zimbabwe, Namibia and Ghana focused on assisting small-scale producers with their efforts to grow, process and export a variety of primary commodities, including paprika, vanilla, silk, Nile perch, rock lobster, leather products, fruit juices, and sea salt. In addition, the Foundation is currently launching new T&I programs in Zambia and Cape Verde, and

later this year will initiate programs in Nigeria. Most of these eight programs involve co-funding contributions from African governments, and they leverage capital or technical assistance from the private sector. ADF conducts rigorous financial analyses and market surveys as part of the design and approval process, similar to what a venture capital firm would undertake to fund an activity. The Foundation also develops and tests models for transferring technology to small producers.

These highly successful endeavors are proving that small African enterprises and African farmers can diversify into new commodities, meet international standards, and successfully compete in the global economy.

Strategic Partnerships

Under its new corporate strategy, the Foundation has set an objective to “establish strategic partnerships with national and local governments, other donor agencies, and the local private sector, to support sustainable, grassroots development.” Toward this end, ADF is building innovative partnerships that can serve as vital sources of capital and technology to expand the impact of ADF’s program and disseminate and replicate lessons learned and best practices for grassroots development.

The Foundation began strategic partnerships several years ago. The initial focus has been on leveraging contributions from national and state governments. ADF is now expanding its efforts to attract contributions from international and African corporations. In all these programs, the Foundation maintains and promotes its core values – accountability, sustainability, innovation, and a commitment to building up grassroots-based and African-owned investments. ADF is wholly responsible for ensuring accountability for funds, program implementation, and achievement of targeted results.

At the end of FY 2002, ADF had three active strategic partnerships. In Botswana and Guinea, these partnerships are both supported by the national government. In Nigeria the partnership is supported by the Jigawa State Government. The work ADF has done under the Guinea partnership has been heralded by World Bank officials as one of the most innovative approaches to rural infrastructure development in Africa, and it is being used as a model for new World Bank-funded programs in Senegal and Niger. In Jigawa, northern Nigeria, ADF received more than \$500,000 in contributions for a program that has successfully demonstrated a low-cost, appropriate-technology approach to constructing rural and peri-urban housing. This model is already being replicated in other states in Nigeria. Moreover, this program has projected a strong, positive American presence in Africa’s most populous nation and fostered goodwill between Nigeria and the United States.

In FY 2003, ADF aggressively expanded its strategic partnerships through firm commitments of contributions to co-fund projects in six additional countries. The Foundation is developing trade and

investment projects in Ghana, Zambia and Cape Verde, activities to provide sustainable income for AIDS victims in Swaziland, and enterprise development projects in Mali and Senegal. Through these nine active strategic partnerships, the Foundation expects to leverage at least \$4.2 million in contributions for grassroots development during FY 2005.

These partnerships are forged with the recognition that ADF's approach is both unique and effective, as captured by the comments of Zambian President Levy Mwanawasa: "Appreciating the grassroots work and the activities that the African Development Foundation supports...I know very well that such support to Zambia would be significantly very beneficial to our people."

Based on discussions the Foundation has already had with other governments, as well as with large corporate entities seeking to fund philanthropic activities, there is an unmet demand for ADF's support and great potential for additional strategic partnerships.

Strengthening Program Operations

The Foundation has undertaken a major restructuring of both its headquarters and field operations during the past two and a half years to strengthen program operations. In response to recommendations from the USAID Inspector General, the Foundation has established two new mechanisms for field operations: the Partner Organization and the Country Representative.

ADF established the Partner Organization Development Program as a major strategic initiative and launched the arrangement in early FY 2002. Our experience showed that there was a great need for professional indigenous organizations that practice participatory development and are committed to grassroots development. The Foundation's objective is to "build self-supporting, sustainable, local development agencies that provide technical assistance and support to grassroots groups." Through an open, competitive grant process, ADF selected a local nongovernmental organization in each country. Under a performance-based cooperative agreement, which is renewable annually up to five years, the Foundation is building the capacity of indigenous Partner Organizations to become professional development entities that are financially and institutionally sustainable.

The Partner Organizations assist prospective grantees in developing proposals for funding. Partner Organizations conduct rigorous financial analyses to ensure the viability and sustainability of proposed projects. After ADF awards project grants, the Partner Organizations provide training in financial management and participatory evaluation to grantees. They also routinely visit grantees to monitor their progress, assist them in rectifying implementation problems, and advise them on preparing quarterly financial and performance reports.

The Country Representative reports to ADF and is independent of the in-country Partner Organization that ADF supports. While the Partner Organization supports grantees, the Country Representative carries out functions that support ADF and, hence, are overhead in nature. Their principal duties include analyzing the viability of proposals, conducting due diligence on prospective grantees, assessing the financial management capacity of new grantees, reviewing grantees' use of funds throughout the life of the grant, monitoring project implementation and remediation, and assessing program impact. The Country Representative makes recommendations on new grants to be awarded but does not make the final determination on grant awards. A Project Discussion Group at ADF's Washington, DC headquarters reviews all project proposals and forwards its recommendations on grant approval to ADF's President, who has been delegated with the authority to approve or decline grant awards by ADF's Board of Directors. The President reviews grant recommendations and sign the approving memo and obligating documents required to obligate a new grant.

In light of the new field structures, the Foundation has also realigned its headquarters staffing to give greater attention to project analysis, financial management, support for initiatives in trade and investment and HIV/AIDS, forging and implementing strategic partnerships, assessing program impact, disseminating lessons learned and best practices, and strengthening outreach.

While the Foundation is optimistic that these new structures will improve efficiency and effectiveness over time, ADF has had to undertake significant costs in transitioning to and launching these new structures during FYs 2003 and 2004. ADF is continuing to restructure headquarters and country representative staffing to reduce these overhead costs in FY 2005.

Strengthening Financial Management and Information Management Systems

The African Development Foundation has greatly strengthened both its own financial management and that of its grantees, and it has improved information management systems for headquarters operations and grants administration.

ADF takes its fiduciary responsibilities very seriously. Despite the nascent capacity of many of its grantees, the Foundation maintains high standards for financial accountability.

- As part of the initial screening process of prospective grantees, ADF staff formally assesses a group's capacity to control and account for funds and makes a certification of this capacity, identifying areas where additional training or remediation are required.
- All grantees are required to submit quarterly financial reports and financial statements.
- After a grant is approved, the Partner Organization provides a five-day training course on ADF's accounting procedures and reporting requirements. Each of the Partner Organizations has a full-time, experienced Financial Officer on staff who provides initial training and refresher training and advice as needed.

- The Country Representative monitors reporting by grantees and makes regular site visits to check project accounting and monitor overall implementation progress.
- In addition, ADF contracts with independent audit firms in each country where it operates to conduct audits. Each grant over \$50,000 is audited at least once during its tenure.

ADF maintains financial oversight of all Partner Organizations that have cooperative agreements with the Foundation. An internal audit of each Partner Organization is conducted every year. This audit is conducted by ADF's Internal Audit Department (IAD) and by independent auditors contracted and managed by IAD who are based in the Partner Organization's country of operation.

ADF undergoes annual, independent audits that address its financial statements, internal controls, and compliance with United States Government laws and regulations. For the past three years, the Foundation has received an unqualified opinion on all five financial statements, as well as its comparative FY 2001/2002 and FY 2002/2003 statements, from its independent auditors. Thus, the Foundation is in full compliance with all OMB requirements and new statutes, including the Accountability for the Tax Dollar Act. These are major accomplishments.

To further strengthen its financial management, ADF has negotiated an interagency agreement with Department of Interior's National Business Center to provide full system support that utilizes the federal government-approved Oracle Financial Management system. This agreement will ensure the integrity of ADF's financial data and will provide timely reports to assist ADF management in making key decisions regarding the Foundation's financial operations. With implementation virtually completed during FY 2004, the financial statement audit for FY 2004 year will be conducted using information generated by the Oracle Financial Management system. This is a major accomplishment and represents a significant improvement in ADF's financial management capabilities.

Finally, ADF has a comprehensive grants database to improve management oversight and internal controls for financial reporting by grantees and Partner Organizations. ADF is currently using the database to support its year-end financial statements. In FY 2004, the Foundation plans to expand the database to include more information on project performance and results.

Table 1. ADF'S Strategic Goals and Objectives for FY 2004

Goal I: Advance broad-based, sustainable development and empowerment of the poor in Africa

Objective 1: Promote micro- and small-enterprise development that will generate income and employment

Objective 2: Increase participation of African grassroots enterprises and producer groups in trade and investment relationships with the U.S. and within Africa

Objective 3: Promote innovative community-based interventions to remediate the economic and social impact of HIV/AIDS and reduce its spread

Goal II: Expand local capacity to promote and support grassroots, participatory development

Objective 1: Build self-supporting, sustainable, local community development agencies that provide technical assistance and support to grassroots groups

Objective 2: Promote community resource mobilization and reinvestment

Objective 3: Establish strategic partnerships with national and local governments, other donor agencies, and the local private sector, to support sustainable, grassroots development

Objective 4: Encourage African governments and other donors to increase utilization of participatory development "best practices"

Selected Performance Indicators

ADF's programs have a significant and measurable impact on improving the lives of Africa's poorest communities. Indeed, during the past four years, more rigorous efforts to enhance the screening, design and monitoring of projects have helped the Foundation significantly improve its performance measures.

In FY 2003, the Foundation exceeded all of its project-related performance targets, including:

- ADF helped grow more than 80,000 micro and small enterprises – almost fifteen times more than in 1999.
- Half of the direct beneficiaries from ADF's MSE support were women.

- More than \$15.1 million in small loans were extended to micro-entrepreneurs who could not access credit from a formal bank; nearly 62 percent of those beneficiaries were women.
- ADF-assisted businesses in the active projects generated an estimated \$28.8 million in annual revenue and more than \$6.4 million in *profits* after project inception.
- In addition, ADF's catalytic investments in small African businesses and agricultural cooperatives that produce for the global market generated more than \$12.0 million in revenues.
- ADF funding provided training in HIV/AIDS prevention to more than 280,000 people, most of whom do not have access to critical, life-saving HIV/AIDS information. The Foundation also began a new pilot program of small grants to mitigate the economic and social impact of this devastating epidemic.

ADF is currently in transition in regard to its strategic plan, and the Foundation's Board of Directors will adopt a new strategic plan with revised goals and objectives during FY 2005. At that time, the Foundation will take steps to ensure that all of its performance indicators are fully aligned with the Foundation's goals and objectives. This will allow the Foundation to provide data on its annual success in achieving its primary goals and objectives.

Table 2. Actual Performance Results for Fiscal Years 2000, 2001, 2002 and 2003

Performance Indicator	FY 2000	FY 2001	FY 2002	FY 2003
Micro- and Small Enterprise Development				
Enterprises assisted	19,635	47,049	86,180	80,946
Owners and employees in assisted enterprises	47,168	36,457	96,854	112,802
Women as a percent of employees in assisted enterprises	77.0%	56.8%	58.1%	48.2%
Enterprises receiving loans	42,518	54,099	65,319	67,893
Values of loans disbursed	Indicator Not in use	Indicator not in use	\$11.2 million	\$15.1 million
Percent of total value of loans for women*	81.7%	50.8%	60.6%	61.8%
Total gross revenues of assisted enterprises and organizations	Indicator Not in use	\$17.5 million	\$53.4 million	\$28.8 million
Total net income of assisted enterprises and organizations	Indicator Not in use	\$10.5 million	\$14.6 million	\$6.4 million
Trade and Investment				
Number of export products promoted	2	4	19	Indicator discontinued
Total gross revenues of assisted enterprises and organizations from export sales	Indicator Not in use	Indicator not in use	\$7.6 million	\$12.0 million
AIDS Prevention & Mitigation				
People receiving training in AIDS prevention	962	35,483	274,041	282,089
Women as a percent of people receiving AIDS prevention trg*	Indicator Not in use	57.0%	66.8%	64.9%
Participatory Development Methods				
Partner Organizations assisted	13	14	13	13
Host governments encouraging donors to adopt PDM or allocating more funding to PDM	2	2	4	8

* The actual percentages for women are higher than reported since all beneficiaries were counted as men when

gender-disaggregated data was not available; thus percentage of women as beneficiaries is a conservative, lower-bound estimate.

Future Activities

ADF's FY 2005 request will allow the Foundation to initiate program operations in two new countries where the Foundation can make a significant contribution to broad-based economic and social development by funding projects that follow a grassroots, participatory approach. New countries currently under consideration include Kenya, Liberia, Sierra Leone, and the Sudan in the first priority tier and Angola, Eritrea, and Mozambique in the second priority tier. At the lower request level for FY 2005, ADF would not be able to begin operations in any new countries.

The requested appropriation would be used to:

- Increase the access of micro- and small- enterprises to credit, improved technologies, training and technical assistance, and other business development services;
- Promote new export trade and investment opportunities (T&I) for African enterprises, especially those involving U.S. businesses and small-scale producers in Africa. The African Growth and Opportunity Act of 2000 (AGOA), which was passed with strong bipartisan support, specifically recognizes the important role of ADF in helping to integrate small-scale producers at the grassroots level into the global economy;
- Support innovative, indigenous approaches to AIDS prevention and to mitigating the catastrophic financial, economic, and social problems that the epidemic causes in families and communities;
- Build, sustainable local community development agencies that support participatory grassroots development;
- Promote community reinvestment;
- Establish additional strategic partnerships with national and local governments, donors, and the private sector; and
- Encourage African governments and major development assistance organizations to increase use of participatory development methods.

ADF Quality Assurance, Internal Controls and Legal Compliance

In 1994, ADF established an Internal Audit Department (IAD) with a full-time Financial and Field Auditor who reported directly to the President. The IAD is based at ADF's Washington, DC headquarters, and its activities

are solely dedicated to conducting and managing audits of ADF's Partner Organizations and Grantees. The IAD manages the audit program for project grantees, determines which projects will be audited, defines the scope of work required for each audit, evaluates the performance of contracted auditing firms, and authorizes payment to contracted auditing firms. The Foundation's Board of Directors has a designated audit committee who are responsible for all audit and review functions of the Foundation. ADF's Internal Financial and Field Auditor is primarily responsible for the financial oversight of all partner organizations. The IAD conducts an on site internal audit of each partner organization at least once every two years and reviews the results of the partner's yearly independent audit.

In addition to the Financial and Field Auditor, IAD also has a full-time Financial Control Officer whose primary responsibility is oversight of the Foundation's grantees. The Financial Control Officer also supervises the independent external audit of ADF's grant program.

ADF's grants database has a full time Grants Database and Operations Manager, who is the primary person responsible for the continued integrity and security of all grantee administrative and financial data reported. Following the conversion of the Financial Management System (FMS) in FY 2004, ADF will interface grant database with its FMS to facilitate timely management analysis of financial data and ensure regulatory compliance.

Comments on Financial Statements

ADF is pleased to report that in FY 2004 the Foundation continued to receive an unqualified opinion on all five financial comparative statements from its independent auditors Leonard G. Birnbaum and Company, and the USAID Office of the Inspector General. Since FY 2001, ADF has received an unqualified opinion on the Balance Sheet, the Statement of Net Costs, the Statement of Net Position, the Statement of Budgetary Resources, and the Statement of Financing.

Limitations of the Financial Statements

ADF's principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from books and records in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

AFRICAN DEVELOPMENT FOUNDATION
INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2004 and 2003

Leonard G. Birnbaum and Company
Certified Public Accountants
6285 Franconia Road
Alexandria, Virginia 22310
(703) 922-7622

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the President,
African Development Foundation:

We have audited the African Development Foundation's (ADF) Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources and Statements of Financing as of and for the years ended September 30, 2004 and 2003 (collectively the Principal Financial Statements); we have examined internal control over financial reporting in place as of September 30, 2004; and we have examined compliance with laws and regulations.

In our opinion, ADF's 2004 and 2003 Principal Financial Statements are presented fairly in all material respects.

We found:

- an instance of material weakness in the internal controls over financial reporting,
- instances of noncompliance with selected provisions of applicable laws and regulations involving ADF's financial management system, and
- noncompliance with the Federal Financial Management Improvement Act (FFMIA) of 1996.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

PRINCIPAL FINANCIAL STATEMENTS

In our opinion, ADF's 2004 and 2003 Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, and Statements of Financing, including the notes thereto, present fairly, in all material respects, ADF's financial position as of September 30, 2004 and 2003, and the net cost of operations, the changes in net position, and use of budgetary resources, and the use of financing, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

INTERNAL CONTROL

We considered ADF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Principal Financial Statements. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget's (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that the Office of Management and Budget (OMB), or ADF management have identified as being significant for which compliance can be objectively measured and evaluated.
- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgement, could adversely affect ADF's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted the following matter that we considered to be a material weakness as defined above. ADF's financial and accounting system, as of September 30, 2004 was inadequate. The principal areas of inadequacy were:

- Because of inadequacies of entering all transactions in the financial management system used by the Department of Interior, National Business Center to process ADF's transactions, significant elements of the financial statements including, but not limited to, grant advances, prepayments, franchise fund, accounts payable, undelivered orders, unexpended appropriations, and expenses; were developed from sources other than the general ledger.
- The United States Standard General Ledger has not been implemented at the transaction level.

This deficiency in internal control may adversely affect any decision by management that is based, in whole or part, on information that is inaccurate because of this deficiency. Un-audited financial information reported by ADF, including budget information, also may contain misstatements resulting from this deficiency.

Finally, with respect to internal control related to performance measures reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant controls relating to the existence and completeness assertions and determined whether those controls had been placed in operation as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noticed certain other matters involving the internal control structure and its operation that we have reported to the ADF's management in a separate letter dated November 12, 2004.

COMPLIANCE WITH LAWS AND REGULATIONS

ADF's management is responsible for complying with laws and regulations applicable to ADF. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ADF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts, and certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in FFMIA. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to ADF. The objective of our audit of the Principal Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions in statutes and regulations, which cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB-Bulletin 01-02, which are described below.

- The inadequacy of the financial and accounting system articulated above, in the internal control section, is a failure to comply with:
 - The Budget and Accounting Procedures Act of 1950 (Sec. 113), which requires an accounting system that provides full disclosure of the results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the budget, and effective control over income, expenditures, funds, property, and other assets.
 - JFMIP's *Federal Financial Management System Requirements* state that the core financial management systems must support the partnership between program and financial managers, and assure the integrity of decision-making information including the ability to collect accurate, timely, complete, reliable, and consistent information. JFMIP also requires that the core financial system be able to provide financial information to support internal and external reporting requirements, including as necessary the requirements for financial statements. OMB guidance states that one indicator of compliance with this standard is that the ADF's core financial system, supported by other systems containing the detailed data summarized in the core financial system, be the source of

information for the preparation of the annual financial statements. However, the ADF's core financial system is not the sole source of information used in the preparation of the annual financial statements.

- OMB Circular A-127, *Financial Management Systems*, which requires ADF to establish and maintain an accounting system that provides for (1) complete disclosure of the financial results of the activities of the agency, (2) adequate financial information for agency management and for formulation and execution of the budget, and (3) effective control over revenue, expenditures, funds, property, and other assets.

The results of our tests of compliance with other laws and regulations disclosed no material instances of noncompliance. Compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 is discussed below.

Under FFMIA, we are required to report whether the ADF's financial management systems substantially comply with the federal financial management system requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA issued by OMB on January 4, 2001.

The results of our tests disclosed instances, as described below; where the ADF's financial management systems did not substantially comply with the requirement to follow the federal financial management system requirements. OMB implementation guidance states that, to be in substantial compliance with this requirement, the ADF must (i) implement United States General Ledger at the transaction level (ii) meet specific requirements of OMB Circular A-127. We found two instances of substantial noncompliance with these standards.

- Circular A-127 requires that the ADF's systems support management's fiduciary role by providing complete, reliable, consistent, timely and useful financial management information. Based on the weaknesses related to financial management systems discussed in the report on internal controls and the preceding paragraphs in the report on compliance, we determined that the ADF was not substantially in compliance with this standard.
- The United States Standard General Ledger has not been implemented at the transaction level.

ADF has overall responsibility for its financial management systems, during 2004, ADF has changed its accounting service provider from General Services Administration to Department of Interior, National Business Center. But this conversion has not yet been fully implemented as of September 30, 2004.

We noted certain other instances of noncompliance that we have reported to the ADF's management in a separate letter dated November 12, 2004.

RESPONSIBILITIES AND METHODOLOGY

ADF management has the responsibility for:

- preparing the Principal Financial Statements and other accompanying information in conformity with accounting principles generally accepted in the United States of America;
- establishing and maintaining effective internal control; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on these Principal Financial Statements based on our audit. Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Financial Statements are free of material misrepresentation and presented fairly in accordance with accounting principles generally accepted in the United States of America. We considered ADF's internal control for the purpose of expressing our opinion on the Principal Financial Statements referred to above and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Principal Financial Statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Financial Statements;
- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;
- obtained an understanding of the internal controls relevant to performance measures included in Management's Discussion and Analysis, including obtaining an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they had been placed in operations;
- obtained an understanding of the process by which the agency identifies and evaluates weaknesses required to be reported under FMFIA and related agency implementing procedures;

- tested compliance with selected provisions of laws and regulations that may have a direct and material affect on financial statements;
- obtained written representations from management; and
- performed other procedures, as we considered necessary in the circumstances.

Our audits were conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin 01-02. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis is not a required part of the Principal Financial Statements, but are supplementary information required by OMB Bulletin 01-09, Form and Content of Agency Financial Statements, and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended for the information of the Inspector General of ADF and management of the African Development Foundation. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/

Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 12, 2004

African Development Foundation
BALANCE SHEET
As of September 30, 2004 and 2003

	<u>Notes</u>	<u>FY 2004</u>	<u>FY2003</u>
ASSETS			
Intragovernmental:			
Fund Balance with Treasury	3	\$25,074,008	\$ 22,627,277
Fund Balance held outside Treasury	3	<u>1,254,368</u>	<u>724,296</u>
Intragovernmental		26,328,376	23,351,573
General property, plant and equipment – Net	5	497,933	370,838
Travel advances	4	98,130	59,400
Grants advances	4	2,596,270	1,755,283
Prepayments	4	<u>712,564</u>	<u>1,198,957</u>
TOTAL ASSETS		<u>\$30,233,273</u>	<u>\$ 26,736,051</u>
LIABILITIES			
Accounts Payable	7	\$ 237,864	\$ 107,147
Accrued Payroll	7	83,197	84,454
Accrued Leave	7	207,309	183,402
Other liabilities	7	<u>133,578</u>	<u>118,296</u>
TOTAL LIABILITIES		<u>\$ 661,948</u>	<u>\$ 493,299</u>
NET POSITION			
Unexpended Appropriations		26,562,115	23,805,948
Cumulative Results of Operations		<u>3,009,210</u>	<u>2,436,804</u>
TOTAL NET POSITION		<u>\$29,571,325</u>	<u>\$ 26,242,752</u>
TOTAL LIABILITIES AND NET POSITION		<u>\$30,233,273</u>	<u>\$ 26,736,051</u>

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENT OF NET COST
For the Years Ended September 30, 2004 and 2003

	FY 2004 Grant <u>Program</u>	FY2003 Grant <u>Program</u>
PROGRAM COSTS		
Program expenses	\$ 8,280,561	\$ 8,450,837
Operating Expenses – Public	7,686,746	6,371,889
Operating Expenses – Intragovernmental	<u>177,003</u>	<u>125,000</u>
TOTAL PROGRAM COSTS	<u>16,144,310</u>	<u>14,947,726</u>
NET PROGRAM COSTS	<u>16,144,310</u>	<u>14,947,726</u>
NET COST OF OPERATIONS	<u>\$16,144,310</u>	<u>\$ 14,947,726</u>

African Development Foundation
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2004 and 2003

	<u>Notes</u>	<u>FY 2004</u>		<u>FY 2003</u>	
		<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
Beginning Balances		\$ 2,436,804	\$23,805,948	\$2,263,509	\$18,963,953
Budgetary Financing Sources					
Appropriations Received			18,689,000		18,689,000
Rescission & Cancelled Resources			(110,266)		(121,479)
Appropriations Used		15,822,567	(15,822,567)	13,725,526	(13,725,526)
Nonexchange Revenue					
Donations – Expendable	6	717,146		1,276,584	
Imputed Financing		177,003		125,000	
Other				(6,089)	
Net Cost of Operations		<u>(16,144,310)</u>	<u> </u>	<u>(14,947,726)</u>	<u> </u>
Ending Balances		<u>\$ 3,009,210</u>	<u>\$26,562,115</u>	<u>\$ 2,436,804</u>	<u>\$ 23,805,948</u>

African Development Foundation
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2004 and 2003

	<u>Notes</u>	<u>FY 2004</u>	<u>FY2003</u>
BUDGETARY RESOURCES			
Budget Authority – Appropriation		\$18,689,000	\$ 18,689,000
Unobligated Balance Brought Forward, October 1		3,165,861	2,336,486
Spending Authority from Donations		717,146	1,276,584
Adjustments:			
Net Results of Foreign Currency Adjustment PY Obligations		2,189,626	(2,592,891)
Rescission Current Year		(110,265)	(121,479)
Permanently not available		<u>(935,257)</u>	<u>(189,775)</u>
TOTAL BUDGETARY RESOURCES		<u>\$23,716,111</u>	<u>19,397,925</u>
Obligations Incurred – Current Period		18,023,993	16,232,064
Unobligated balances – available	3	5,314,632	2,652,031
Unobligated balances – unavailable	3	<u>377,486</u>	<u>513,830</u>
TOTAL STATUS OF BUDGETARY RESOURCES		<u>\$ 23,716,111</u>	<u>\$ 19,397,925</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
Obligated balance, Net – Beginning of Period		18,551,284	15,350,883
Obligated balance – Net End of Period			
Accounts Payable		321,060	
–			
Undelivered Orders		<u>20,315,198</u>	<u>18,551,284</u>
		20,636,258	18,551,284
Outlays:			
Disbursements		15,920,824	12,702,987
Collections		<u>(717,146)</u>	<u>(1,276,584)</u>
Net Outlays		<u>\$15,203,678</u>	<u>\$ 11,426,403</u>

African Development Foundation
STATEMENT OF FINANCING
For the Years Ended September 30, 2004 and 2003

	<u>FY 2004</u>	<u>FY2003</u>
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred	\$18,023,993	\$ 16,232,064
Less: Spending Authority from Offsetting Collections & Adjustments	<u>(2,189,625)</u>	<u>39,723</u>
Net Obligations	15,834,368	16,271,787
Donated revenue	717,146	1,276,584
Financing Imputed for Cost Subsidies	<u>177,003</u>	<u>125,000</u>
Net Other Resources Used to Finance Activities	<u>894,149</u>	<u>1,401,584</u>
Total Resources Used to Finance Activities	16,728,517	17,673,371
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in budgetary resources not yet provided (Increase)	(522,313)	(2,011,670)
Resources that finance the acquisition of assets	<u>(239,924)</u>	<u>(1,588,524)</u>
Total resources that do not fund net costs	(762,237)	(3,600,194)
Total Resources Used to Finance Net Cost of Operations	15,966,280	14,073,177
Costs that will not Require Resources in this Period:		
Increase in Accrued Annual Leave Liability	23,907	-
Exchange Revenue from the Public (Increase)	<u>-</u>	<u>721,315</u>
Total Costs that will Not Require Resources in this Period	23,907	721,315
Components not Requiring Resources		
Bad Debt Related to Uncollectible Receivables	-	17,092
Loss/Gains on the Disposal of Assets	-	6,089
Depreciation	<u>154,123</u>	<u>130,052</u>
Total costs that do not require resources	154,123	153,233
NET COST OF OPERATIONS	<u>\$16,144,310</u>	<u>\$ 14,947,725</u>

African Development Foundation
Notes to the Financial Statements
As of September 30, 2004

Note 1. Organization

The African Development Foundation (“ADF” or “the Foundation”) is a government-owned corporation established by Congress under the African Development Foundation Act in 1980 and began operations in 1984.

The Foundation is the principal agency of the U.S. Government that supports community-based, self-help initiatives that alleviate poverty and promote sustainable economic and social development in Africa at the grassroots level. The Foundation’s headquarters are in Washington, D.C. ADF maintains partnerships with local organizations, staffed with African professionals, in each of the countries in which it operates. Over the past 20 years, the Foundation has funded more than 1600 projects in 34 African countries.

Note 2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis to report the financial position and results of operation in accordance with the concepts and standards contained in the Statements of Federal Financial Accounting Standards, as required by the Chief Financial Officers Act of 1990. These statements have been prepared from the books and records of the Foundation in accordance with the form and content for federal financial statements specified in the Office of Management and Budget (OMB) in *OMB Bulletin No. 01-09*, as amended, and the Foundation’s accounting policies, which are summarized in this note.

B. Basis of Accounting

Transactions are recorded on an accrual basis. Grants are recorded when obligated and expenses are recognized when the funds are expended, without regard to receipt or payment of cash. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of grants and expenses during the reporting period. Actual results will invariably differ from those estimates.

The accompanying notes are an integral part of these statements.

C. Fund Balances with Treasury and Cash

The Foundation maintains the majority of its funds in the U.S. Treasury. These are amounts for which the Foundation is authorized to make expenditures and pay liabilities. The Foundation also maintains cash in a commercial account at Deutsche Bank Trust Company Americas in New York to process the award of grant funds to recipients in U.S. currency. In addition, commercial, noninterest bearing accounts (in local currencies) are maintained with Barclays Bank of Botswana, Citibank Nigeria, and Banco Comercial do Atlantico in Cape Verde to process grant funds for those countries. An account at Ecobank in Guinea has also been opened, however, those funds have been judged by GOA as not available to ADF for project funding. Thus, funds will have to be returned to the government of Guinea. The governments of Botswana and Cape Verde co-fund all grants with matching grant funds deposited to the respective country bank accounts. The government of Jigawa State in Nigeria has co-funded four housing projects. ADF controls all disbursements from these accounts.

D. Foreign Currencies

The Foundation awards grants to private organizations in Africa. Most of the grants are denominated in local currencies to facilitate accounting by the recipient organizations. Depending on the nature of the transaction, foreign currencies are translated into dollars at the actual exchange rate received by the Foundation when the transaction is made or at the prevailing exchange rate at the beginning of the month in which the transaction occurred. The value of obligations incurred by the Foundation in foreign currencies varies from time to time depending on the current exchange rate. The Foundation adjusts the value of its obligations at the end of each quarter during the year to reflect the prevailing exchange rates. Downward adjustments to prior year obligations based on favorable foreign currency exchange rates will be made available for obligation if the adjustment occurs within the Foundation's authorized two year funding period. Upward adjustment to prior year obligations based on unfavorable foreign currency exchange rate with the U.S. dollar will be made from funds made available for upward adjustments, if any, or from currently available funds.

E. Grant Accounting

The Foundation disburses funds in advance to grantees to cover their projected expenses over a three-month period. Grantees report to the Foundation periodically on the actual utilization of these funds. For purposes of these financial statements, the Foundation treats disbursements to grantees as advances. The advance is reduced when the grantee reports expenditures. The total grant advance is the total amount disbursed to the grantee less the total expended for open (nonexpired) grants as of the reporting date. In order to ensure timeliness in reporting grantee expenditures, the Foundation will use estimates to complete to calculate the last quarter's grantee expenditures based on historical expenditure trends since 1996. The actual expenditures adjustments will be reported in the following quarter's financial statements. Once a grant has closed (expired or cancelled) any excess disbursement is reclassified as an Accounts Receivable.

F. Travel Advances

Advances are given to ADF employees for official travel. Travel advances are recorded as expenses upon receipt of employee travel vouchers.

G. Property, Plant and Equipment, Net

The space in which the Foundation operates is leased by the Foundation through a multi-year lease. Equipment is depreciated using the straight-line method over useful lives, which is estimated at five years. Equipment with an acquisition cost of less than \$5,000 or less than two years of life is expensed when purchased.

H. Accounts Payable

Accounts payable represent amounts owed to nonfederal entities, primarily commercial vendors, for goods and services received by ADF.

I. Contingencies

The Foundation is a party in various administrative legal actions and claims brought by or against it. According to the Foundation's legal counsel, the likelihood of unfavorable outcomes for all these legal actions and claims is remote. In the opinion of the Foundation's management, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or results of operations of the Foundation.

J. Annual, Sick, and Other Leave

Annual, sick and other leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the Foundation calculates the value of the accrued annual leave at the end of the year based on current pay rates. Funding for payment of accrued annual leave at the end of the year will be taken from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

K. Retirement Plan

The Foundation's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Foundation makes statutory contributions to the Office of Personnel Management for employees enrolled in each plan. The Foundation does not report accumulated assets, plan benefits or unfunded liabilities, if any, attributable to its employees. The Office of Personnel Management reports such amounts.

L. Trust Fund

The Foundation maintains a Trust Fund with the U.S. Treasury in accordance with its gift authority.

M. Reclassifications

Certain accounts in fiscal year 2003 were reclassified to confirm with the fiscal year 2004 presentation.

Note 3. Fund Balance with Treasury

Fund Balances and Funds Held Outside Treasury

ADF's Fund Balance with Treasury and Funds Held Outside Treasury as of September 30, 2004 and 2003 are summarized below:

	<u>FY 2004</u>	<u>FY 2003</u>
Appropriated Funds	\$ 25,057,645	\$ 22,611,487
Trust Fund	<u>16,363</u>	<u>15,790</u>
Total Fund Balance with Treasury	\$ 25,074,008	\$ 22,627,277
Deutsche Bank Trust Company	96,952	39,232
Ecobank of Guinea	133,578	118,296

Note 3. Fund Balance with Treasury

Barclays Bank of Botswana	740,773	515,471
Citibank Nigeria	39,013	51,297
Cape Verde	<u>244,052</u>	<u>-</u>
Total Funds Held Outside Treasury	\$ 1,254,368	\$ 724,296
Total	<u>\$ 26,328,376</u>	<u>\$ 23,351,573</u>

B. Status of Fund Balance with Treasury	<u>FY 2004</u>	<u>FY 2003</u>
Unobligated Balance		
Available	\$ 5,314,632	2,652,031
Unavailable	377,486	513,830
Obligated Balance not yet Disbursed	<u>\$20,636,258</u>	<u>20,185,712</u>
Total	<u>\$ 26,328,376</u>	<u>\$ 23,351,573</u>

Note 4. Advances

ADF's advances as of September 30, 2004 and 2003 are summarized below:

	<u>FY 2004</u>	<u>FY2003</u>
Grants	\$ 2,596,270	\$ 1,755,283
Travel	98,130	59,400
Prepayments	<u>712,564</u>	<u>1,198,957</u>
Total	<u>\$ 3,406,963</u>	<u>\$ 3,013,640</u>

Note 5. Property, Plant and Equipment, Net

Equipment is capitalized at cost if the initial unit acquisition cost is \$5,000 or more and service life is two years or more. Equipment with an acquisition cost of less than \$5,000 or less than two years of life is expensed when purchased.

ADF's property, plant and equipment as of September 30, 2004 and 2003

	<u>FY 2004</u>	<u>FY 2003</u>
Equipment, at cost	\$ 1,290,087	\$ 1,050,162
Accumulated Depreciation	<u>(792,154)</u>	<u>(679,324)</u>
Equipment, net	<u>\$ 497,933</u>	<u>\$ 370,838</u>

Note 6. Donations & Other Revenues

Donations recognized in FY 2004 and FY 2003 represents expendable donated/ funds that are generated by the Foundation through its strategic partnerships with national and local African governments.

	<u>FY 2004</u>	<u>FY 2003</u>
Government of the Republic of Botswana	\$ 467,146	\$ 804,840
Government of Jigawa State, Nigeria	\$ -	471,744
Government of Cape Verde	<u>\$ 250,000</u>	<u>-</u>
Total	<u>\$ 717,146</u>	<u>\$ 1,276,584</u>

Note 7. Accounts Payable and Other Liabilities

Accounts payable represent amounts owed to nonfederal entities, primarily commercial vendors for goods and services received by ADF, and accrued employee payroll and annual leave.

	<u>FY 2004</u>	<u>FY 2003</u>
Commercial vendors	\$ 237,864	\$ 107,147
Government of Republic of Guinea	133,578	118,296
Accrued employee payroll and leave	<u>290,506</u>	<u>267,856</u>
Total	<u>\$ 661,948</u>	<u>\$ 493,299</u>

Note 8. Leases

The space in which the Foundation Headquarters operates is leased by the Foundation through a multi-year lease until April 30, 2008. The total amount of funding commitment is detailed in Table 1.

ADF also enters into year-to-year leases in the countries with established Resident Representative offices.

**TABLE 1 – ADF Headquarters’
Space Lease – Total Future Payment Due**

Fiscal Year	Dates	Amount
Year 1	October 1, 2004 – September 30, 2005	\$376,626
Year 2	October 1, 2005 – September 30, 2006	\$384,159
Year 3	October 1, 2006 – September 30, 2007	\$391,842
Year 4	October 1, 2007 – April 30, 2008	\$232,874
TOTAL		\$1,385,501

Note 9. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government.

The 2006 Budget of the United States Government, with the Actual Column completed for fiscal year 2004, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to the Congress in February 2005. The 2005 Budget of the United States Government, with the Actual Column completed for fiscal year 2003, has been reconciled.

**Management
Comments**



November 15, 2004
Mr. Bruce N. Crandlemire
Assistant Inspector General for Audit
Office of the Inspector General, U.S.A.I.D.
1300 Pennsylvania Avenue
Washington, D.C. 20523-8100

Re: Audit Report of the 2004 Financial Statement

Dear Mr. Crandlemire:

We have received the audit report supplied by Leonard G. Birnbaum and Company, including the opinion on the African Development Foundation's (ADF) fiscal years 2003 and 2004 comparative financial statements, internal controls status, and compliance with applicable laws and regulations. We are pleased to note that all five comparative financial statements (Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing) have continued to receive unqualified opinions. Thank you and your team as well as Birnbaum and Company for working closely with us during the audit process.

During the course of the audit, you identified and reported an instance of weakness in the internal controls over financial reporting and three related instances of non-compliance with selected provisions of applicable laws and regulations. In general, we concur with your findings and recommendations. As you have identified, the material weakness in internal controls relates to the inadequacy of the financial management systems. You commented on this weakness in the FY 2003 report as well. In the beginning of FY 2004, ADF entered into an interagency agreement with US Department of Interior, National Business Center, to provide full support utilizing their federalized Financial Management System. While our goal was to complete the implementation in time to prepare FY 2004 from the Financial Management System, this did not happen. The conversion of complex grant data was more complicated than originally estimated, and this caused delays in the successful implementation of the system in FY 2004. We remain fully committed to completing the implementation, and our new target is the end of the second quarter of FY 2005. Therefore, by March 31, 2005, all weaknesses identified in the FY 2003 and FY 2004 audit reports will be corrected. The effectiveness and success of ADF's quality improvement program is evidenced by the continued unqualified opinions received on ADF's financial statements and the

timely resolution all reported weaknesses.

We at the African Development Foundation recognize the importance of accountability and public disclosure and our goal is to achieve excellence in our financial management systems. We are committed to resolving the issues identified in your report and have dedicated the staff and resources to ensure our systems are in full compliance. We look forward to working with you and your staff on the 2005 audit. Any questions may be addressed to Marti Edmondson, Chief Financial Officer at ADF or to me.

Sincerely,

/s/

Nathaniel Fields

President

1400 Eye Street, N.W. • Tenth Floor • Washington, D.C. 20005 • (202) 673-3916 • fax:
(202) 673-3810 • email: info@adf.gov

AFRICAN DEVELOPMENT FOUNDATION
Fiscal Year Ended September 30, 2004

Status of Prior Year Audit Finding

FY 2003 Audit Findings

1. **The United States Standard General Ledger has not been implemented at the transaction level** - Because of inadequacies in the system used by the General Services Administration to process ADF's Transactions, significant elements of the financial statements including, but not limited to, grant advances, prepayments franchise fund, accounts payable, undelivered orders, unexpended appropriations, and expenses; were developed from sources other than general ledger. The inadequacy of the financial and accounting system resulted from failures to comply with:

The Budget and Accounting Procedures Act of 1950 (Sec. 113), which requires an accounting system that provides full disclosure of the results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the budget, and effective control over income, expenditures, funds, property, and other assets.

OMB Circular A-127, Financial Management Systems, which requires ADF to establish and maintain an accounting system that provides for (i) complete disclosure of the financial results of the activities of the agency, (ii) adequate financial information for agency

JFMIP's Federal Financial Management System Requirements state that the core financial management systems must support the partnership between program and financial managers, and assure the integrity of decision-making information including the ability to collect accurate, timely, complete, reliable, and consistent information. JFMIP also requires that the core financial system be able to provide financial information to support internal and external reporting requirements, including as necessary the requirements for financial statements. OMB guidance states that one indicator of compliance with this standard is that the ADF's core financial system, supported by other systems containing the detailed data summarized in the core financial system, be the source of information for the preparation of the annual financial statements. However, the ADF's core financial system is not the sole source of information used in the preparation of the annual financial statements.

Current Status

During FY2004, ADF switched its accounting service provider from GSA to Department of Interior's National Business Center. This conversion has not yet been fully implemented as of September 30, 2004. Because of inadequacies of entering all transactions in the financial management system used by the NBC to process ADF's transactions, significant elements of the 2004 financial statements including, but not limited to, grant advances, prepayments, franchise fund, accounts payable, undelivered orders, unexpended appropriations, and expenses; were developed from sources other than the general ledger management and for formulation and execution of the budget, and (iii) effective control over revenue, expenditures, funds, property, and other assets.

■